

June 20, 2014

VIA EMAIL

TO: BPA Tech Forum (techforum@bpa.gov)

RE: June 10, 2014 Generation Inputs Workshop Request for Comments

General Comments:

Renewable Northwest provides the following comments for consideration as BPA develops its proposal for the FY2016-17 Ancillary and Control Area Services (ACS) Rates. Renewable Northwest appreciates the collaborative work that has taken place among BPA staff, executives, and customers since the settlement of the FY2014-15 ACS Rates. Much progress has been made on variable energy resource (VER) integration issues, and yet much work remains. We look forward to continuing the collaborative dialogue on these issues.

Our goal for the coming rate period is for BPA to provide a higher quality balancing service to its customers at a decreased rate while replacing the controversial DSO 216 with a non-discriminatory reliability tool. Evidence suggests that it will be possible for BPA to meet this goal through operational and market improvements that make the provision of balancing services much more efficient and cost-effective:

- 1) BPA has successfully purchased third-party balancing reserves at a cost that is significantly lower than the costs that feed into BPA's current VERBS rate;
- 2) BPA has implemented day-ahead third-party balancing reserve purchasing capability;
- 3) BPA has developed the Real-time Reserve Requirement Tool (R3T);
- 4) BPA is on track to implement 15-minute scheduling on time by October 1, 2014;
- 5) VER scheduling accuracy has improved significantly;
- 6) The number of DSO 216 events has significantly decreased;
- 7) A 15-minute capacity product and bilateral trading platform is on track to be completed prior to the FY2016-17 rate period; and
- 8) The CAISO-PacifiCorp EIM is on track to be up and running on October 1, 2014 and is scheduled to accept new participants prior to the start of the FY2016-17 rate period.

3Degrees
American Wind Energy Association
Atkins
Blattner Energy
Bonneville Environmental
Foundation
Center for Energy Efficiency &
Renewable Technologies
Christenson Electric
Citizens' Utility Board of Oregon
Climate Solutions
Columbia Gorge
Community College
Community Renewable
Energy Association
DNV GL
Ecofys
EDF Renewable Energy
EDP Renewables
Environment Oregon
Environment Washington
Eurus Energy America
FirstWind
GE Energy
Geothermal
Resources Council
Green Mountain Energy
HDR Engineering, Inc.
Iberdrola Renewables
Idaho Conservation League
K&L Gates
Kapla Law PLLC
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Defense Council
NextEra Energy Resources
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Northwest SEED
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OneEnergy Renewables
Oregon Solar Energy
Industries Association
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Water Enterprises
Washington Environmental Council
WashPIRG
Western Resource Advocates

In short, many operational tools and market improvements have been implemented or are on the horizon that will allow BPA to provide a higher quality of balancing service to its customers at less cost.

As BPA builds up its third-party balancing reserve purchasing capability and gains experience in this nascent market, we encourage BPA to move cautiously in the direction of purchasing more balancing reserves from third-parties, including purchases that would reduce the total balancing capacity provided by Federal Columbia River Power System (FCRPS) resources. We expect the prudent expansion of this third-party purchasing capability to steadily improve the region's ability to cost-effectively balance loads and resources. As this transition occurs, it would be inappropriate for any single customer group to bear all of the risk associated with these purchases because the cost savings associated with cheaper balancing reserves benefits all customers. In order to manage this risk equitably, we encourage BPA to consider the plethora of available tools to decrease the cost of providing balancing services and propose a fixed VERBS rate that BPA believes it can manage within.

Lastly, we are still very interested in the details behind any BPA proposal that reduces the amount of DEC reserves being held. We require detailed information about the number and magnitude of expected feathering events under any new proposal and how that compares to the status quo. Making this information available at the same time BPA releases its proposal would be very helpful. It will also be important to understand how DEC reductions fit into the rest of BPA's proposal and the related policy issues.

Embedded Cost Calculation:

The following comments relate to the embedded cost methodology options presented by BPA staff on May 29, 2014.

We appreciate BPA staff's effort to present methodologies that strive to move towards a more consistent approach to calculating the energy and capacity costs associated with the federal assets. However, many of the scenarios, to varying degrees, make policy-driven assumptions that are flawed from our perspective.

While the scenarios provided by BPA staff improve on the principle of "consistency," many of these scenarios disregard the principle of "cost-causation" altogether. Many of the costs that BPA has included in these scenarios do not have anything to do with "balancing services" or the units that provide those services.

Specifically, we oppose scenarios A, B, and D because they do not remove the costs associated with WNP #1 and #3. As BPA staff is aware, these plants were never built and are not capable of providing energy or balancing reserves. The remaining debt associated with these projects was not caused by transmission customers and is not properly included in balancing service rates.

Similarly, we oppose scenarios A and B because they also do not remove the costs associated with the energy efficiency program. As clean energy advocates, we are strong supporters of energy efficiency; however, the benefit of energy efficiency is that it reduces the demand for and the cost of providing energy. Energy efficiency does not provide balancing reserves and balancing reserves do not cause more energy efficiency to be needed. As such, the costs of BPA's impressive energy efficiency program are not properly included in balancing service rates.

If for some reason BPA were to include the costs of energy efficiency in the embedded cost calculation, consistency dictates that energy efficiency should be treated as a “resource” throughout the calculations. Accordingly, the total firm energy and capacity of the system in lines 9 and 12, respectively, should be adjusted to include the additional “capacity” and “energy” associated with the energy efficiency program.

We support including credits for both the “secondary energy” and the “firm energy without capacity” before calculating the embedded costs associated with providing balancing capacity. This is an important adjustment as compared to the status quo because otherwise, BPA is over-collecting its embedded costs—once from its energy sales and again from its capacity sales.

If BPA chooses to follow one of the methodologies in Scenarios A through D, we believe that including any additional “variable costs” in the VERBS rate would be inappropriate. These methodologies start with the total cost of the system and deduct firm and non-firm energy sales based on assumed market prices. The “energy shift costs” and “efficiency losses” captured by the current variable cost calculations would be duplicative in this context.

Finally, although it does not directly apply to the embedded cost calculations here, as the embedded costs are translated into specific rates, we wish to highlight that the quality of service differences between the load following, VERBS, and DERBS customers must also be accounted for. Customers that receive a lesser quality of service should not pay the same rate as customers that receive a higher quality of service.

FCRPS Balancing Reserve Availability in the Spring:

BPA has asked customers to comment on how the costs and risks associated with anticipated FCRPS balancing reserve shortfalls during the spring runoff should be handled from a rates perspective.

First and foremost, we would like to see more analysis and information before we support any particular approach. Specifically,

- 1) We would like to see more information behind the constraints that actually drive the reductions in FCRPS balancing reserve capability in the spring. So far, BPA has provided a historic look at the balancing reserves provided during spring, but that is not the same as providing a comprehensive analysis of the physical capability of the FCRPS in the spring and a full description of which operational constraints drive seasonal limitations.
- 2) Similarly, if BPA is going to determine the physical feasibility of the FCRPS in the spring, BPA should determine the physical feasibility of the system during all times of the year and on as granular a basis as possible (e.g., weekly, daily, hourly), and should commit to providing those reserves when needed.
- 3) We would like to get more market information about the cost of third-party balancing reserves in the spring. To date, BPA and customers have had a positive experience with purchasing 42 MW of springtime balancing reserves on a long-term basis and a much less positive experience purchasing 500 MW of springtime balancing reserves on a day-ahead basis. We have little insight into what it would look like to purchase 500+ MW of balancing reserves in the spring on a long-term basis.

From our perspective, it is also important to recognize that the springtime reserve reductions have the effect of reducing the need to implement BPA's Oversupply Management Protocol (OMP). Asking VERBS customers to bear all the costs and risks of reduced reserves when most of the benefits of avoiding OMP accrue to other customers would be inappropriate.

Without more information, we can only offer the general comment that no single class of balancing service customers (load, VERBS, or DERBS) should have to bear all the costs and risks of FCRPS shortages in the spring. Approaches that result in stable VERBS rates over the FY2016-17 rate period will be viewed more favorably than those that do not. Continuing to explore cost-effective third-party purchases in the spring is also important, whether through a short-term, long-term, or layered approach. A fixed rate that includes a springtime purchasing budget and a strong purchasing strategy and stakeholder involvement may be the best way to balance these needs.

Intentional Deviation Penalty Comments:

BPA has asked customers to comment on whether or not we believe that applying an Intentional Deviation Penalty to wind while loads and other generators have a Persistent Deviation Penalty is unduly discriminatory.

Without seeing the details on BPA's definition of "intentional" and what metrics will be used to determine compliance, we cannot say for sure if the different treatment described by BPA rises to the level of being unduly discriminatory. Moreover, this question may depend on BPA's rate and non-rate terms and conditions for its balancing services as a whole—not just the intentional versus persistent deviation component.

That being said, we have long argued that Persistent Deviation does not work for variable energy resources because the definition of a "persistent deviation" captures what is often consistent with the best practices for forecasting and scheduling VERs. Renewable energy plants may at times deviate from schedule in the same direction for multiple hours in a row just because of the raw nature of the resource and the implications of persistence forecasting. These and other circumstances may warrant different approaches to encouraging scheduling and forecasting accuracy for VERs as compared to loads and thermal generation.

In addition, we encourage BPA to work with CSGI customers to develop terms and conditions that could make Intentional Deviation work within the CSGI context.

Balancing Authority Reliability Tool Comments:

BPA has asked for comments on the concept of applying the newly proposed Balancing Authority Reliability Tool (BART) to thermal plants and non-AGC hydro plants differently than it would be applied to wind and solar generation. Specifically, BPA has suggested that thermal and non-AGC hydro plants should be exempt from DEC orders under the BART because most of these plants lack the necessary communication equipment and installation of such equipment would be expensive and untimely.

We appreciate that BPA is trying to develop a less discriminatory tool for reliably managing immediate shortages of balancing capability. However, we have yet to see the details behind the BART concept and how it will be implemented; as such, it seems premature to be exempting parties at this time. Speaking for customers that have already had to install expensive communication equipment to respond to BPA's dispatch orders and have had curtailment costs forced upon them, we are not immediately persuaded by those arguments.

The more customers that BPA exempts from BART, the less likely the tool is to be distinct, in effect, from the current DSO 216, thereby making it less likely that the BART will be viewed as a non-discriminatory reliability tool. That being said, speaking for variable energy generators, we understand that all generation does not have the same operational characteristics and that certain customers may require different treatment at certain times.

If installing the necessary communication equipment is unworkable or ineffective for certain customers at this time, we suggest that BPA pursue alternatives other than exemption. BPA could instead explore a financial mechanism for allowing customers that cannot operationally reduce their scheduling error to provide compensation for the “reliability services” other generators are forced to provide in their absence. Alternatively, BPA could develop a work plan with a reasonable timeline for getting the necessary communication equipment installed on these generators.

Thank you for the opportunity to comment.

Sincerely,

/s/

Cameron Yourkowski
Senior Policy Manager